CHFFA HELP II LOAN PROGRAM
EXECUTIVE SUMMARY

Applicant:	San Benito Health Care District (San Benito) dba Hazel Hawkins Memorial Hospital 911 Sunset Drive Hollister, CA 95023 San Benito County	**Loan Amount:** **Loan Term:** **Annual Interest Rate:** **Authority Meeting Date:** **Resolution Number:**	$2,000,000 20-year fixed 2% May 27, 2021 HII-331
Project Site:	911 Sunset Drive, Hollister, CA 95023		
Facility Type:	General Acute Care Hospital		
Eligibility:	Government Code section 15432(d)(1)		
Prior HELP II Borrower:	No		

Background: San Benito is a full service, 25-bed public general acute care, critical access hospital providing health care services to San Benito County and southern Santa Clara County. San Benito's mission is to serve as a responsive, comprehensive health care resource for its patients, physicians, and the health care consumers of its community.

Use of Loan Proceeds: Loan proceeds will be used to replace a nearly 50,000 square foot roof in order to prevent potential disruptions and shut-downs to a number of services at the hospital. Loan proceeds may also include remodeling its radiology suite.

Financing Structure:

- 20-year, two percent (2%) fixed rate loan
- 240 equal monthly payments of approximately $10,118 (annual payments of approximately $121,412)
- Assignment of San Benito County property tax revenue in the event of default (annual payments of $121,412 in agreement with San Benito County)
- Provide unaudited quarterly financial statements until its debt service coverage ratio (DSCR) is above 1.0x based on audited financial statements
- Maintain a debt service reserve fund equal to six monthly payments ($60,706) held in account until its DSCR is above 1.0x based on audited financial statements
- Executed construction contract
- Corporate gross revenue pledge
- Verification of borrower funds to close loan

Financial Overview: San Benito has developed a plan to increase its revenues in order to offset negative operating results reflected over the review period. San Benito also has agreed to additional security on the loan to offset its FY 2020 proforma DSCR being below 1.0x.

Estimated Sources of Funds:		**Estimated Uses of Funds:**	
HELP II Loan Proceeds	$ 2,000,000	Construction Project Fund	$ 2,070,000
Borrower Funds	100,000	Financing costs	30,000
Total Estimated Sources	$ 2,100,000	**Total Estimated Uses**	$ 2,100,000

Due Diligence: Staff has received and reviewed the Eligibility, Legal Review, and Religious Affiliation documentation. All documentation satisfies the Authority's requirements.

Staff Recommendation: Staff recommends approval of Resolution Number HII-331 for San Benito Health Care District in an amount not to exceed $2,000,000 for a term not to exceed 20 years, and contingent upon financing terms acceptable to the Authority. TAP International, the Authority's financial analyst, concurs with the Authority's staff recommendation.

(TB)

I. POLICY EXCEPTION REQUEST:

Under the current guidelines, the maximum loan amount for a construction/renovation project is \$1.5 million with a 2% interest rate over 20 years. San Benito is requesting an exception to the maximum loan amount for a total of \$2 million to replace their hospital roof and possibly remodel a room to develop a new radiology suite that will be compatible with a new computed tomography (CT) scanner. However, San Benito currently anticipates the renovation of the roof will require the full \$2 million loan request. Without the policy exception, San Benito would have to secure additional financing of \$500,000 for the project, which could potentially delay the start and completion of the roof replacement.

II. PURPOSE OF FINANCING:

San Benito is seeking a HELP II loan to finance the replacement of the roof for its acute care hospital and to remodel its radiology suite. The acute care hospital continues to operate under the original 1962 roof. In November 2019, the roof above the Intensive Care Unit (ICU) failed, requiring services to shut down from November 27, 2019 through April 13, 2020, which caused a loss in revenue while repairs were made. The roof covering the acute care hospital is ten years older than the roof covering the ICU and now needs to be replaced before it also fails. Departments located in the acute care hospital that could be affected by a roof failure include medical and surgery beds; the operating room for inpatient procedures; radiology, which includes MRI, CT Scanner, ultrasound procedures, and diagnostic x-ray; respiratory therapy; all lab testing machines and an outpatient draw station; registration; the Health Information Management department; and the gift shop and cafeteria. San Benito is the only hospital in San Benito County, and it can take 30 minutes to an hour to reach the next closest hospitals, Saint Louise Regional Hospital in Gilroy or Salinas Valley Memorial Healthcare System in Salinas.

If the roof project comes in under budget, San Benito hopes to remodel a room to develop a new radiology suite space for a new CT scanner. The radiology suite project is expected to cost between \$450,000 and \$500,000. If there is too little or no savings in the roof project, San Benito would use cash reserves or additional supplemental funding to complete the radiology suite project.

Project fund \$2,070,000

Hospital roof replacement project – This project consists of a nearly 50,000 square feet complete replacement of the existing built-up & gravel roofing system. The project also includes replacement/repair of the pitched roof gutters, mechanical curb flashing, deteriorated stucco screen walls, rooftop penetrations, and other related material for roof repair. San Benito anticipates beginning the project in August 2021 in order to complete the new roof by late fall 2021. The new roof will have a 30-year warranty and will include inspections in the second year and every fifth year up to year 25.

Radiology expansion and remodel – San Benito's current and only CT scanner reached the end of its useful life in the fall of 2019. San Benito has plans to lease a new CT scanner; however, it will not be compatible with the existing radiology room due to the increased size of the new scanner.

San Benito plans to remodel a separate room for the new scanner, and Siemens has agreed to continue providing maintenance service on the old scanner in its existing room until the new scanner is in place. The project will also renovate an adjacent patient restroom to bring it up to code. San Benito has not yet decided on the final use of the current CT scanner room, but it may be used for storage space that will be lost in the expansion of the new radiology suite.

District hospitals are considered public property and cannot be foreclosed upon to liquidate assets for loan repayments. As such, the HELP II loan will be secured by an assignment of San Benito's property tax revenue in the event of default in lieu of requiring a lien position.

Financing Costs		**30,000**
Authority Fee	$25,000	
Estimated Escrow/Title Fees	5,000	
Total Uses of Funds		**$2,100,000**

III. FINANCIAL STATEMENTS AND ANALYSIS:

San Benito Health Care District
Statement of Activities
(Income Statement)

	For the Years Ended June 30, 2020	2019	2018
Operating revenues			
Net patient service revenue	$ 105,710,231	$ 110,494,988	$ 109,897,539
Other operating revenue	11,112,518	4,690,067	5,816,688
Total operating revenues	116,822,749	115,185,055	115,714,227
Operating expenses			
Salaries and wages	48,997,153	47,132,141	45,001,044
Employee benefits	27,385,123	24,818,373	23,503,771
Registry	2,647,966	1,921,030	1,855,016
Professional fees	15,596,203	14,200,621	13,890,751
Supplies	10,942,052	10,522,582	10,836,043
Purchased services and repairs	10,868,872	11,181,312	11,417,173
Utilities and phone	1,662,824	1,660,394	1,592,660
Building and equipment rent	1,877,179	1,805,200	1,755,263
Insurance	566,823	473,222	417,145
Depreciation and amortization	4,152,450	4,520,347	4,826,254
Other operating expenses	850,996	428,154	629,111
Total operating expenses	125,547,641	118,663,376	115,724,231
Operating income (loss)	(8,724,892)	(3,478,321)	(10,004)
Nonoperating revenues (expenses)			
District tax revenues	3,942,242	3,764,388	3,613,527
Investment income, net of unrealized gains and losses	176,578	220,685	56,723
Interest expense	(1,817,826)	(1,879,023)	(1,984,034)
Grants, contributions and other gains and losses	592,865	525,052	573,421
Other non-operating revenues	1,178,437	18,345	16,228
Total nonoperating revenues (expenses)	4,072,296	2,649,447	2,275,865
Excess of revenues over expenses	(4,652,596)	(828,874)	2,265,861
Other increases (decreases) in net position	(28,127)	(132,083)	13,665
Net increase (decrease) in net position	(4,680,723)	(960,957)	2,279,526
Net increase (decrease) in net position due to GASB 68	(781,653)	(1,459,109)	(1,168,275)
Net position at beginning of the year	25,695,520	28,115,586	27,004,335
Net position at end of the year	$ 20,233,144	$ 25,695,520	$ 28,115,586

San Benito Health Care District
Statements of Financial Position
(Balance Sheet)

	As of June 30, 2020	2019	2018
Assets			
Current assets			
Cash and cash equivalents	$ 21,627,188	$ 11,764,127	$ 4,797,137
Restricted trust funds available for current debt service	2,681,463	2,555,663	2,434,129
Patient accounts receivable, net of allowances	9,086,956	10,725,298	9,667,602
Other receivables	1,762,372	1,515,329	1,269,436
Estimated third party payor settlements	3,166,143	3,120,459	6,919,159
Inventories	2,793,341	2,636,833	2,545,848
Prepaid expenses and deposits	593,363	533,578	843,144
Total current assets	41,710,826	32,851,287	28,476,455
Assets limited as to use	1,469,432	4,031,633	4,133,951
Capital assets, net of accumulated depreciation	58,888,801	61,563,897	65,279,162
Other assets	642,878	642,878	648,087
Total assets	102,711,937	99,089,695	98,537,655
Deferred outflows of resources	3,180,347	4,679,935	4,754,548
	$ 105,892,284	$ 103,769,630	$ 103,292,203
Liabilities			
Current liabilities			
Current maturities of debt borrowings	$ 2,430,000	$ 2,660,847	$ 2,512,851
Accounts payable and accrued expenses	10,622,167	6,984,712	6,464,026
Accrued payroll and related liabilities	7,560,263	6,451,365	6,003,176
Total current liabilities	20,612,430	16,096,924	14,980,053
Estimated long-term third party payor settlements	10,485,474	3,973,966	850,000
Long-term pension liabilities	12,855,495	13,464,962	11,967,953
Debt borrowings, net of current maturities	41,705,741	44,538,258	47,378,611
Total liabilities	85,659,140	78,074,110	75,176,617
Net position			
Invested in capital assets, net of related debt	16,308,801	16,100,044	17,302,458
Restricted, by contributors and indenture agreements	3,877,430	3,778,778	3,829,555
Unrestricted	46,913	5,816,698	6,983,573
Total net position	20,233,144	25,695,520	28,115,586
Total liabilities	$ 105,892,284	$ 103,769,630	$ 103,292,203

	Proforma FYE June 30, 2020	2020	2019	2018
Debt Service Coverage - Net (x)	0.35	(0.23)	1.48	2.83
Debt to Unrestricted Net Assets (x)	2.49	2.70	2.15	2.05
Margin (%)		(7.47)	(3.02)	(0.01)
Current Ratio (x)		2.02	2.04	1.90

Financial Discussion

San Benito has developed a plan to increase its revenues in order to offset negative operating results reflected over the review period. San Benito also has agreed to additional security on the loan to offset its FY 2020 proforma debt service coverage ratio being below 1.0x.

Net patient revenue, San Benito's primary source of revenue, decreased from nearly $110.5 million in FY 2019 to $105.7 million in FY 2020, due primarily to COVID-19 shutdowns. The COVID-19 pandemic caused a drop in patient volume through decreased elective surgeries, postponed inpatient procedures, and a decline in patients seeking general care. Notwithstanding losses in net patient revenues in FY 2020, San Benito's total operating revenues still exhibited a stable upward trend, increasing by approximately 1% from approximately $115.7 million in FY 2018 to $116.8 million in FY 2020, due to a significant increase in San Benito's other operating revenue in FY 2020. San Benito management stated other operating revenue sources included $5.6 million of Coronavirus Aid, Relief, and Economic Security (CARES) Act funding, a $1.2 million insurance payment due to loss of business from the 2019 ICU roof failure, and a $1.4 million supplemental payment from the Public Hospital Redesign and Incentives in Medi-Cal (PRIME) program. Going forward, other operating revenues may not experience levels as high as in FY 2020, however San Benito anticipates receiving $2 - $4 million annually from the Quality Inventive Program, which makes payments based on certain performance metrics, and will replace the PRIME program.

During the same period, total operating expenses increased from approximately $115.7 million in FY 2018 to nearly $125.5 million in FY 2020, an increase of approximately 8.5%. Salaries and wages, along with employee benefits, represent about 60% of San Benito's total operating expenses. Together, these expenses increased approximately 11.5%, from $68.5 million in FY 2018 to approximately $76.4 million in FY 2020. Despite the loss of patient admissions in FY 2020, San Benito did not lay off employees during the COVID-19 pandemic. San Benito management also noted they are currently reviewing ways to restructure salaries, wages, and benefits at the hospital.

San Benito has recently taken a number of steps to improve its financial position. In March 2020, San Benito received its designation as a Critical Access Hospital (CAH). According to San Benito, the change in designation to a CAH has increased its Medicare reimbursement rates, and they expect to receive an additional $6 million annually based on current Medicare utilization numbers. Some of the requirements to receive a CAH designation include: have 25 or fewer acute care inpatient beds, be located more than 35 miles from another hospital, maintain an annual average length of stay of 96 hours or less for acute care patients, and provide 24-hour emergency care services seven days a week. Although San Benito experienced lower patient volumes during the earlier months of the COVID-19 pandemic, they saw a surge of patients at the hospital between December 2020 and February 2021 due to increasing COVID-19 cases. As such, the California Department of Public Health authorized San Benito to exceed the CAH limit of 25 patients during the COVID-19 crisis. The acute average daily census (ADC) was 14 in November 2020, but exceeded 25 for December 2020 and January 2021 and was 23.6 in February 2021. In March 2021, San Benito's acute ADC returned to 15.6, which reflected a month that was almost COVID-19 free. As a comparison to pre-pandemic levels, on an annual basis San Benito's acute ADC was 16.8, 16.2, and 16.4 for FY 2017, FY 2018, and FY 2019, respectively.

In February 2021, San Benito refunded its 2013 bonds and realized a net present value savings of approximately $1.7 million, resulting in lower annual debt service payments for the 2021 bonds, which will improve cash flows to repay the HELP II loan. Lastly, San Benito management anticipates increased revenues through greater patient volumes as services such as the skilled nursing facilities (SNF) return to normal levels as COVID-19 restrictions decrease. The SNF ADC increased from 73.1 in January 2021 to 77.4 in February 2021 and 79.4 in March 2021. As a comparison to pre-pandemic levels, on an annual basis, San Benito's SNF ADC was 98.8, 97.8, and 95.5 for FY 2017, FY 2018, and FY 2019, respectively. San Benito also will continue to apply for funding from the federal and state-funded programs in which they are eligible to participate.

In FY 2018, San Benito displayed a debt service coverage ratio (DSCR) of 2.83x, then dropped to 1.48x in FY 2019, and dropped to negative 0.23x for FY 2020. According to San Benito, FY 2020's drop in debt service coverage ratio was due to a decrease in net patient revenue due to COVID-19. With the new HELP II loan, lower debt service payments from refunding the series 2013 bonds, and indications of increased patient volumes due to reduced COVID-19 restrictions in San Benito County, San Benito's proforma FY 2020 DSCR is 0.35x.

CHFFA has historically required a minimum debt service coverage ratio of 1.0x for HELP II loans. Although not common, the Authority has approved HELP II loans for borrowers with less than a 1.0x DSCR, most recently in April 2018 for Encompass Community Services. In such instances, staff analyzes the borrower's potential future financial position, the severity of the need for the loan, and community benefit of the project. Together with the Authority's financial analyst, staff recommends a security package suitable to the borrower that will mitigate some risk.

San Benito has agreed to two additional security features that will be in place until its DSCR is above 1.0x based on audited financial statements. San Benito has agreed to establish a debt service reserve fund equal to 6 months of loan payments (approximately $60,706), and San Benito will submit quarterly unaudited financial statements for CHFFA staff to review. The Authority consulted with TAP International, the Authority's financial analyst, who concurs that these additional security measures are sufficient.

IV. UTILIZATION STATISTICS:

Clients Served and Patient Visits

	Fiscal Year Ending June 30,		
	2020	2019	2018
Clients Served	29,829	29,467	28,934
Patient Visits	146,392	148,051	146,720

V. OUTSTANDING DEBT:

Issued	Original Amount	Amount Outstanding As of June 30, 2020	Estimated Amount Outstanding after Proposed Financing
San Benito Healthcare District Insured Revenue Bonds, Series 2013 *	$ 24,915,000	$ 16,480,000	$ -
San Benito Healthcare District General Obligation Refunding Bonds, Series 2014	30,030,000	26,100,000	26,100,000
San Benito Healthcare District Insured Refunding Revenue Bonds, Series 2021	12,570,000	-	12,570,000
-PROPOSED NEW DEBT			
CHFFA - Help II Loan		-	2,000,000
-TOTAL DEBT		**$ 42,580,000**	**$ 40,670,000**

* Series 2013 bonds were refunded with Series 2021 bonds on January 28, 2021.

VI. BACKGROUND AND LICENSURE:

Background

In 1957, the voters of San Benito County approved the formation of San Benito Health Care District (San Benito) from Hazel Hawkins Memorial Hospital and the first patients were admitted to the new district hospital on June 19, 1962. San Benito is a full service, 25-bed public acute care, critical access hospital providing health care services to San Benito County and southern Santa Clara County. San Benito's mission is to serve as a responsive, comprehensive health care resource for its patients, physicians, and the health care consumers of its community. In addition to the hospital, San Benito operates two skilled nursing facilities, four rural health clinics, a multi-specialty center, an orthopedic and joint center, a physical therapy and rehabilitation clinic, a home health agency, four laboratories, and the Barragan Family Diabetes Center. San Benito offers a full range of inpatient and outpatient services that include emergency services, stroke care, surgical services, radiology and diagnostic imaging services, laboratory services, palliative care, physical, speech and occupational therapy, respiratory care, and a new modern birthing center.

Licensure, Certification and Accreditation

San Benito is licensed by the California Department of Public Health to operate and maintain a general acute care hospital.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-331

RESOLUTION APPROVING EXECUTION AND DELIVERY OF HELP II LOAN PROGRAM AGREEMENTS WITH CERTAIN PARTICIPATING HEALTH INSTITUTIONS

WHEREAS, the California Health Facilities Financing Authority (the "Authority"), a public instrumentality of the State of California, is authorized by the provisions of the California Health Facilities Financing Authority Act (the "Act") to provide secured or unsecured loans to participating health institutions to refinance existing debt and finance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing, or equipping of a health facility;

WHEREAS, the Authority established the HELP II Loan Program (the "Program") to provide loans to participating health institutions as authorized by the Act;

WHEREAS, **San Benito Health Care District** (the "Borrower"), a California participating health institution, has applied to the Authority for a loan through the Program, and the application has been reviewed by the staff of the Authority; and

WHEREAS, approval of the loan by the Authority is now sought;

NOW THEREFORE BE IT RESOLVED by the California Health Facilities Financing Authority, as follows:

Section 1. Pursuant to the Act, the Authority approves the loan to the Borrower, in an amount not to exceed **$2,000,000** for a term not to exceed **20 years** for the purposes described in the application filed with the Authority (the "Projects"), but solely to the extent there are available proceeds of the Program, as determined pursuant and subject to Section 2 hereof. This approval is further contingent upon the following conditions:

1. 20-year, two percent (2%) fixed rate loan;
2. 240 equal monthly payments of approximately $10,118 (annual payments of approximately $121,412);
3. Assignment of San Benito County property tax revenue in the event of default (annual payments of $121,412 in agreement with San Benito County);
4. Provide unaudited quarterly financial statements until its Debt Service Coverage Ratio (DSCR) is above 1.0x based on audited financial statements;
5. Maintain a debt service reserve fund equal to six monthly payments ($60,706), held in account until DSCR is above 1.0x based on audited financial statements;
6. Executed construction contract;
7. Corporate gross revenue pledge; and
8. Verification of Borrower's funds to close loan.

Section 2. The Executive Director and the Deputy Executive Director are hereby authorized, for and on behalf of the Authority, to determine the final amount, terms and conditions of the loans, and to approve any changes in the Project described in the application submitted to the Authority, as said officer shall deem appropriate and authorized under the Act (provided that the amount of the loans may not be increased above the amount approved by the Authority and provided further that the loans continue to meet the Authority's guidelines for HELP II loans). Nothing in this resolution shall be construed to require the Authority to obtain any additional funding, even if more loans are approved than there is available funding. Any notice to the Borrower shall indicate that the Authority shall not be liable to the Borrower in any manner whatsoever should such funding not be completed for any reason whatsoever.

Section 3. The Executive Director and the Deputy Executive Director are hereby authorized and directed, for and on behalf of the Authority, to draw money from the Program fund not to exceed those amounts approved by the Authority for the Borrower. The Executive Director is further authorized and directed, for and on behalf of the Authority, to execute and deliver to the Borrower any and all documents necessary to complete the transfer of funds.

Section 4. The Executive Director and the Deputy Executive Director of the Authority are hereby authorized and directed to do any and all things and to execute and deliver any and all documents which the Executive Director deems necessary or advisable in order to effectuate the purposes of this resolution and the transactions contemplated hereby, and which have heretofore been approved as to form by the Authority.

Section 5. This resolution expires six months from the date of approval.

Date of Approval: ___________________________